

EXHIBIT U



**JUNE 2002 REPORT
FMI-NCCR Animal Welfare Program**

INTRODUCTION

This report gives an overview of the results of almost two years of effort by the retail community working with an advisory panel of scientific experts in animal welfare to improve the care and handling of animals used for food. Although we have made substantial progress, the efforts of Food Marketing Institute (FMI) and the National Council of Chain Restaurants (NCCR) and the advisory panel are not complete. This report is one in a series meant to communicate publicly the industry's progress. This is not a stand-alone document; it is to be used in conjunction with the animal welfare guidelines of the producer and processor organizations identified within this report. Information on how to contact these organizations is attached.

The issues covered in this report are important and complicated. Some recommendations contained within this report have economic implications. Some require an implementation timetable because they cannot be accomplished immediately. Some areas are still being researched to confirm that changes will enhance, not hinder, animal well-being. It is our intention to be straightforward about all of these issues in this and future reports.

Retailers, animal welfare experts, animal welfare advocates, producers, processors, and the public share the common goal that all animals used in agricultural production be cared for in a manner that takes into account their daily well-being and health. We believe this means that in addition to having ready access to fresh water and feed and adequate shelter, animals in agricultural production must be kept in an environment designed to protect them from physical, chemical and thermal abuse, stress and distress. Managers and those responsible for handling these animals must be thoroughly trained, skilled and competent in animal husbandry and welfare. Animals must be transported in a safe and appropriate manner. They must be processed humanely.

FMI and NCCR have been working with independent, expert advisors and the producer/processor community to promote "best practices" for each species that will ensure animal well-being throughout production and processing. We continue to consult regularly with experts in animal science, veterinary medicine and agricultural production to obtain objective, measurable indices for desirable practices in the rearing, handling and processing of animals for food. We continue to urge appropriate Federal and state government agencies to strictly enforce animal welfare protection laws.

FMI and NCCR believe that our efforts to-date have made, and our future efforts will continue to make, a significant contribution to enhancing the well-being of animals in agricultural production.



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FMI-NCCR Goals

FMI and NCCR merged efforts to further develop and support industry policies strengthening animal welfare with the following specific goals in mind:

- Consistency across the US retail sector.
- Implementation of practicable and attainable guidelines based on science.
- A measurable audit process.
- An ongoing advisory council of third party, independent animal welfare experts.
- Improved communications across the supply chain on animal welfare issues.

The FMI-NCCR Process

During the past 20 months, FMI and NCCR have been meeting in person and by conference call with our respective retail member committees, our independent advisors and producer organizations. Our experts have reviewed existing producer animal welfare guidelines, identified gaps and recommended specific changes, additions and revisions.

Working with our expert advisors, we created three guidance documents that recommend the process, guideline content and audit components necessary to develop meaningful and effective animal welfare guidelines. We developed these guidance documents to identify best practices and assess industry standards across animal species.

In May of 2002, our independent expert advisors met to review the revised guidelines submitted by the American Meat Institute, United Egg Producers, Milk and Dairy Beef Quality Assurance Center, National Pork Board, National Chicken Council and National Turkey Federation. This report contains the recommendations of our advisors following that review process.

We want to point out that this is a work in progress. It is important to note that some segments of the producer community are further along in this process than others. Some have been working on this issue for quite some time, undertaking research, seeking counsel of outside experts and revising their guidelines as new information becomes available. Some segments of the producer community have begun their efforts more recently. This work is motivated by the strong desire of retailers and restaurants to enhance animal welfare.

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THE GUIDELINES

Transportation and Slaughter Practices

Animals should be transported to processing facilities and unloaded in a manner that keeps them free from injury and distress. Animals that are not capable of entering a transportation vehicle should not be loaded onto the vehicle, and animals that cannot leave a vehicle on their own should be handled appropriately. They must be processed humanely and in accordance with applicable Federal, state and local laws. Animals must be completely insensible prior to any slaughter procedures (with the exception of religious slaughter which will be handled separately).

NCCR and FMI support and recommend to their members for use with their suppliers:

- The slaughter guidelines, training materials and audit documents of the American Meat Institute for cattle, swine, sheep and goats. These guidelines are generally appropriate for the slaughter of other mammals although minor adjustments for specific species may be necessary.
- The slaughter guidelines of the National Chicken Council for broiler chickens.
- The euthanasia guidelines of the United Egg Producers for laying hens.

We are working on the development of measurable audit processes to assure that our suppliers follow the guidelines made available to them.

Breeding and Rearing

Animal agriculture is changing significantly as it strives to satisfy the needs of the expanding US population. There has been a shift over time toward vertical integration and intensive commercial production. These changes have improved our ability to provide abundant, safe and nutritionally superior food at the lowest cost to consumers of any nation in the world.

The shift toward intensive commercial production has changed the environment in which animals are bred and raised. It also has led to a new focus on the impact of modern food animal production on the well-being of animals and on how their environment can be modified to support animal well-being.

The most challenging area for guideline development is the breeding and rearing of animals for food. In some cases, for example, a focus on animal welfare suggests that structural changes in physical facilities that include increases in space allocation may be needed. As we address these issues in the guidelines, we identify the areas where we know research is underway and where phase-in periods may be necessary.

Laying Hens

FMI and NCCR recommend to their members the 2002 guidelines of the United Egg Producers (UEP) for use with their suppliers of eggs and egg products.

UEP developed a process specifically to address animal welfare concerns in 1999 and formulated their guidelines with the input of a Scientific Advisory Committee. During the past twelve months, UEP has made significant progress on a number of their most challenging issues, including beak trimming, induced molting, space allocation, handling, transportation, handling and processing of spent hens, and euthanasia.

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- UEP recommends *beak trimming* only when necessary to prevent feather pecking and cannibalism and only when carried out by properly trained personnel monitored regularly for quality control. UEP recommends using genetic stocks that require little or no beak trimming as the most desirable approach.
- UEP has undertaken three research projects looking at the *molting of laying hens* without withdrawing feed. The research is underway at the University of Illinois, the University of Nebraska and North Carolina State University. Results are expected to be available by the end of 2002. NCCR and FMI commend UEP for this action and we are asking the industry to develop a specific phase-out program for feed-withdrawal molting.
- The UEP phase-in timetable for increasing the *space allocation per bird* (67 inches for White Leghorn hens; 76 inches for Brown Egg Layers) has been significantly shortened and a minimum standard has been added for all new and remodeled laying houses.
- UEP has developed *training materials* to assist producers in meeting the guidelines and to prepare them for independent audit and certification programs.

For air quality in layer houses, FMI and NCCR recommend that UEP develop a guideline specifying 25 ppm as a maximum and 10 ppm as an ideal level for *ammonia*. For lighting levels in laying houses, FMI and NCCR recommend that UEP develop a guideline specifying that *light intensity* should be 0.5 to 1-foot candle for all birds at feeding levels during production.

Dairy Cattle

NCCR and FMI recommend to their members for use with their suppliers of milk and dairy beef the animal care guidelines of the Milk and Dairy Beef Quality Assurance Center.

The Milk and Dairy Beef Quality Assurance (DQA) Program was developed in 1990, featuring internal audits and third party certification by DQA auditors. Their certification, registration and recognition process was expanded to animal care in 1995. Their program has been developed with the input and guidance of their Animal Well-Being Standards Committee made up of animal scientists, veterinarians and producers. In 2002, DQA agreed to revise its *Caring for Dairy Animals – Reference Guide* to incorporate the recommendations of the FMI-NCCR advisors.

DQA revised their guidelines on several issues based on FMI and NCCR feedback, including but not limited to:

- Adding a *space* allocation guideline for a “cow to free stall” ratio of 1.2.
- Recommending that switch trimming be used rather than *tail docking*.
- Specific guidelines for *procedures that should be performed by a veterinarian and with the use of anesthesia and analgesia*, including approved methods and recommended ages for castration and dehorning.

The DQA Center has developed a comprehensive training program and audit system.

Swine

Working with an animal welfare committee that includes animal scientists, veterinarians and producers, The National Pork Board (NPB) is in the final stages of developing a comprehensive set of animal welfare guidelines and a "swine welfare indexing system." The index will be a tool to assess the welfare of the animal and will be applicable to all types of operations including all indoor and outdoor facilities using stalls, pens, pastures and other forms of housing. The NPB is funding several animal welfare research projects, including five on gestation sow housing.

Our independent, expert advisors have identified a number of issues they believe are important to address and The National Pork Board is in the process of addressing these issues and work continues on the development of training materials and an audit process.

One of the most challenging issues the pork industry faces is confinement of gestating sows. Current pork industry guidelines include several enhancements regarding sow stalls, but our experts have challenged the industry to go further.

As a short-term measure, the FMI and NCCR support enhanced pork industry guidelines regarding individual housing systems, including:

1. The pregnant sow should be able to lie down on her side without her teats extending into the adjacent stall.
2. Her head should not have to rest on a raised feeder.
3. Her rear quarters should not be in contact with the back of the stall.
4. The pregnant sow should be able to stand up unimpeded.

The FMI and NCCR wish to clarify that point #1 should not be achieved by compressing the udder with a wall, bar or other barrier.

Our advisors have identified problems in both systems (individual and group) most commonly used for housing pregnant sows. Most individual housing systems (stall, tethers) prevent normal movement such as walking and turning. Many group housing systems have the potential to foster aggression and unequal food intake. We challenge the swine industry to develop an action plan for implementing systems that will improve the welfare of pregnant sows.

Broilers and Turkeys

We have been working with the National Chicken Council (NCC) and the National Turkey Federation (NTF).

Earlier in this report we endorsed the slaughter guidelines of NCC.

Our independent, expert advisors have reviewed guidelines developed by both NCC and NTF and have identified several areas where improvements can be made in the interest of animal well-being. Both organizations have made progress during the past year and are in the process of reviewing the recommendations of our experts with their respective organizations' committees. We look forward to reporting on their progress later this year.

Cattle – Ranch and Feedlot

The animal welfare committee of the National Cattlemen's Beef Association will review and revise the guidelines developed in 1997. We look forward to working with them during this process.

Next Steps

The FMI-NCCR expert advisors will meet in late summer 2002 to review the progress of those producer organizations that are still working on their guideline revisions. We also will be issuing guidelines for religious processing.

NCCR and FMI are developing an audit system to be used by the industry so retailers will be able to identify suppliers who are implementing animal welfare guideline recommendations.

FMI and NCCR will issue another progress report in October 2002.

FMI and NCCR will begin to review guidelines for veal calves and ducks late in 2002.

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NOTE: To assist you in obtaining additional information about the various producer organizations and their guidelines the following contact information is provided:

American Meat Institute

1700 North Moore Street, Suite 1600
Arlington, VA 22209
P: 703-841-2400
F: 703-257-0938
www.meatami.com

National Cattlemen's Beef Association

1301 Pennsylvania Avenue, NW, Suite 300
Washington, DC 20004
P: 202-347-0228
F: 202-638-0607
www.beef.org

Milk and Dairy Beef Quality Assurance Center, Inc.

801 Shakespeare, Box 497
Stratford, Iowa 50249
P: 515-838-2793
F: 515-838-2788
www.dqacenter.org

United Egg Producers

1303 Hightower Trail, Suite 200
Atlanta, GA 30350
P: 770-587-5871
F: 770-587-0041
www.unitedegg.org

National Turkey Federation

1225 New York Avenue, NW, Suite 400
Washington, DC 20005
P: 202-898-0100
F: 202-898-0203
www.eatturkey.com

National Pork Board

P.O. Box 9114
Des Moines, Iowa 50306
P: 515-223-2600
F: 515-223-2646
www.porkboard.org

National Chicken Council

1015 15th Street, NW #930
Washington, DC 20005
P: 202-296-2622
F: 202-293-4005
www.eatchicken.com

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